Crescent Point Energy Corp.: Is the Pullback Over?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is down 25% in the past three months and off 7% for the year.

Let’s take a look at the company to see if the sell-off presents a good opportunity today.

Weathering the storm

Crescent Point traded for $45 per share at the end of August 2014. Today the stock is about $15.

Long-term investors are certainly frustrated–especially those who held on through the slump hoping the company would maintain its famously resilient dividend.

What’s the scoop?

Crescent Point was able to keep the payout steady during the Great Recession and held out longer than most of its peers during the current downturn, but the extent of the rout finally forced management to reduce the distribution. The first cut took the monthly dividend down from $0.23 per share to $0.10. The second hit lowered it to the current level of just $0.03 per share.

Despite the pain, Crescent Point has done a decent job of navigating through the oil rout.

The company’s balance sheet remains stable, and Crescent Point finished Q2 with $1.4 billion in unused credit facilities. Management has taken advantage of the downturn to add strategic assets, and the strong liquidity position gives the company ample firepower to pick up more distressed properties.

The recent sale of new shares shows the market is still positive on the company’s long-term prospects. Crescent Point raised $650 million to expand its development program, which should push production up as much as 8% in 2017.

Crescent Point is one of the few companies that managed to grow production over the past two years while making significant cuts to the capital plan.

The company owns an attractive land portfolio and has targeted nearly 8,000 drilling sites, representing 14 years of development activity. This could entice a large suitor to take a run at Crescent Point if the stock drops back to the 12-month low.

Most dividend investors have abandoned this stock, but it still offers a 2.4% yield.

Oil prices

The oil market remains volatile with most of the 2016 gains coming on the back of rumours that OPEC will implement supply cuts.

Members of the organization that produces 40% of the world's oil are hoping to announce a definitive deal on November 30 that could reduce output by as much as 700,000 barrels of oil per day.

If an agreement is signed, oil could get a nice bounce, but investors should be careful.

Why?

Iraq, which is OPEC's second-largest producer, wants to be exempt from the deal, citing a need for more money to fight rebels in the country. Iran is also looking for a free pass as it continues to ramp up production after the lifting of embargoes.

This would leave Saudi Arabia to do most of the heavy lifting on a supply reduction. The Saudis and Iran are supporting opposite sides in the war in Yemen, so it is unlikely Saudi Arabia will cut its own throat to benefit a foe.

As such, there is a chance OPEC's plans for deal will fail, and if that happens, oil could take another nosedive in the coming months, which would extend the recent pullback in oil stocks.

Should you buy Crescent Point?

Crescent Point is positioned well to ride out the downturn, and investors should see strong upside when oil prices recover.

At the moment, however, I would stay on the sidelines and look for a better entry point.

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